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## NEWS RELEASE

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### **NO IMPROPER CONDUCT FOUND IN LG&E/KU ELECTRIC RATE CASE** *External investigation concludes; rate decision will not be reconsidered*

FRANKFORT, Ky. (Dec. 14, 2005) – An independent investigation conducted at the request of the Kentucky Public Service Commission (PSC) has determined that there was no improper conduct involved in the PSC's approval of electric rate increases for Louisville Gas & Electric Co. (LG&E) and Kentucky Utilities Co. (KU) last year.

Therefore, in an order issued today, the PSC said it will not reconsider its decision to accept a settlement that increased LG&E's and KU's electric rates.

"We have fulfilled our commitment to investigate thoroughly and in an unbiased way the manner in which this case was handled," PSC Chairman Mark David Goss said. "The special counsel conducted this review entirely on his own, with the full cooperation of the PSC and its staff.

"The most important duty of the PSC is to conduct its business in a fair and open manner," Goss said. "We are gratified that this investigation found that the PSC did so in the LG&E and KU rate cases, which affected so many Kentucky consumers."

Louisville attorney Jonathan Goldberg was retained as special counsel to conduct the investigation for the PSC. He took sworn testimony from 38 people, both inside and outside the PSC, who participated in the case. The special counsel's report and the transcripts of the 38 interviews are being made public today.

The special counsel's investigation included a review of a report and depositions provided to the PSC by the Kentucky Office of Attorney General, which had asked that the case be reopened to determine whether the electric rates approved by the PSC were the result of improper *ex parte* contacts.

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Goldberg said in his report that he “discovered no prohibited *ex parte* contacts between the PSC and the parties to the rate cases.”

(*Ex parte* contacts are those in which all parties to a case do not have the opportunity to participate. They are generally deemed improper only if substantive issues are discussed.)

The electric rate increases were granted to LG&E and KU by the PSC in an order issued on June 30, 2004. The order also increased LG&E’s base gas rate, approved a program to assist low-income consumers and resolved a number of other rate-related issues involving the two utilities.

The PSC’s decision accepted a partial settlement reached by all parties to the case – the Office of Attorney General as well as parties representing interests from low-income residents to major industrial consumers – on all issues except the size of the KU and LG&E electric rate increase. The electric rates approved by the PSC, which were below those originally sought by the utilities, reflect an agreement reached by all parties to the case except the Office of Attorney General.

Several days after the PSC decision, the Office of Attorney General alleged that there had been improper contact between the utilities and the PSC regarding the case and launched an investigation. Shortly thereafter, the PSC opened an independent review, which subsequently was held in abeyance pending the completion of the Office of Attorney General’s report.

The Office of Attorney General delivered his report earlier this year. Goldberg then began his investigation, which was conducted autonomously and with full access to PSC records and personnel. In its order issued today, the PSC adopted the special counsel’s findings and said further proceedings are unnecessary with respect to the allegations that the outcome of the case was tainted.

The PSC also set a schedule for dealing with the last remaining issue in the case – a rehearing that was granted at the Office of Attorney General’s request on a matter related to Kentucky state taxes.

Today’s order, as well as the special counsel’s report, interview transcripts, earlier orders, other case documents and videos of hearings in the case, can be found on the PSC Web site, which is [psc.ky.gov](http://psc.ky.gov). The case numbers are 2003-00433 (LG&E) and 2003-00434 (KU).

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.

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#### **A TIMELINE OF THE CASE FOLLOWS**

## TIMELINE OF LG&E/KU RATE CASES

**November 24, 2003** – LG&E and KU file with the PSC a notice of intent to apply for a rate increase.

**December 29, 2003** – LG&E and KU file rate increase applications with PSC.

**March 31, 2004** – PSC consolidates the rate increase cases with several other rate-related matters involving LG&E and KU.

**April 28, 2004** – All parties to the case attend an informal conference at the PSC offices in Frankfort in preparation for the hearing set for May 4, 2004. Negotiations begin to settle the case.

**April 29, 2004** – Settlement negotiations continue at the PSC offices.

**April 30, 2004** – Settlement talks continue at the offices of the Kentucky Attorney General.

**May 4, 2004** – Hearing begins, but is suspended to allow continued settlement discussions.

**May 5, 2004** – Hearing and settlement talks continue. All parties except the Attorney General reach a settlement on all issues. The Attorney General accepts settlement on all issues except the amount of electric rate increases.

**May 6, 2004** – Hearing continues. Attorney General makes statement to the media claiming collusion and improper *ex parte* contacts regarding the case. PSC Chairman immediately inquires of all participants and receives on-the-record assurances that no participant is aware of any improper *ex parte* communications.

**May 12, 2004** – Hearing resumes for submission of settlement and testimony on electric rates.

**June 30, 2004** – PSC issues its decision in the cases.

**July 5, 2004** – Office of Attorney General issues civil subpoenas and document requests.

**July 15, 2004** – PSC reopens record of the case in order to conduct its investigation.

**August 12, 2004** – PSC agrees to suspend its investigation pending completion of Attorney General's investigation.

**February 28, 2005** – Office of Attorney General delivers report to PSC.

**December 14, 2005** – PSC issues order adopting Special Counsel's report.